

FY 2009 EMERGING MARKETS PROGRAM PROPOSAL

1. DATE OF PROPOSAL

August 12, 2008

2. NAME, ADDRESS, AND TAX ID NUMBER OF SUBMITTING ORGANIZATION

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4. PROPOSAL TITLE

Building Capacity to Analyze Competition for U.S. Exports in a High-Price Environment

5. TARGET MARKET

This project will strengthen USDA capacity to analyze and project the impacts on U.S. agricultural exports resulting from shifts in supply, demand, and policy in key developing and transition countries as they respond to the recent sharp increase in relative prices for food and energy. The proposed target countries are the major Latin American exporters, Argentina and Brazil, and the transition economies of Russia, Ukraine, and Kazakhstan. These countries are major players in global grain, oilseed, and animal product markets with significant potential to expand output, and alter food, feed, industrial use in response to high prices. The large and fundamental shift that has occurred in food and energy prices suggests that the past economic behavior of these markets will not be a good indicator of future behavior, particularly in the medium term when input and capital markets are able to respond. These countries have also demonstrated that they will adjust both domestic and border policies in response to price volatility, underscoring the importance of better capacity to identify the factors that will drive future policy responses. The recent failure of WTO members to reach an agreement in the Doha

Round negotiations will mean a further delay in implementing new disciplines on agricultural and trade policy and prolong uncertainty in the global trade regime. Until there is an agreement, the temptation will be great for countries to use unilateral policy measures to aggressively pursue exports or to isolate their markets from world market forces, including price changes. Supply, demand, and policy responses by these large markets could have major implications for the competitiveness of U.S. grains, oilseeds, and livestock products in third country markets.

6. CURRENT CONDITIONS IN THE TARGET MARKET

Argentina and Brazil. Over the past decade, Brazil and Argentina have become key U.S. competitors in regional and global markets for grains, oilseed and products, and animal products. Following a period of structural reform in the early 1990s, both countries have reduced trade restrictions and oriented their agricultural sectors towards foreign markets with policies aimed at diversifying exports in terms of both markets and products. In the process, both countries have demonstrated their capability to successfully compete with U.S. products, including soybeans and products, corn, poultry, and beef. Despite these developments, both countries appear to have substantial scope to competitively expand crop and animal product output by increasing cropped area, boosting productivity, and investing in more efficient marketing infrastructure.

While both Argentina and Brazil appear to have the capacity to expand competition with U.S. products in a high price environment, a number of factors create substantial uncertainty on how supply, demand, and policy will respond. In Brazil, public indebtedness, inflationary pressures, credit constraints, and marketing and transport bottlenecks make short- and medium term increases in cropland and productivity uncertain. In the longer term, the expansion of agricultural output and competitiveness will be affected by prospects for private agribusiness investment, public and private investment in new technologies, and the environmental impacts of land expansion. In Argentina, both near- and longer term response to recent global market developments are heavily conditioned by changes in export tax policies. Recent changes in export taxes have likely interfered with price signals, leaving it unclear how Argentine growers and agribusinesses will respond in the near term, or whether export taxation policies will continue to affect market responses in the longer term.

Russia, Ukraine, and Kazakhstan: The political and economic collapse of the USSR in the late 1980s led to abrupt declines in livestock herds, meat production, and feed (grain, soybean, soybean meal) imports, as well as declines in cropped area and crop yields, in most of the region. In recent years, relatively strong economic growth has been restored and Russia, Ukraine, and Kazakhstan have emerged as important players in global markets. Russia has emerged as a large meat (beef, pork, poultry) importer, and grain exports by the 3 countries together now average about 20 million tons per year. However, agricultural resource use and productivity, including crop area, crop yields, livestock herds, and animal product output remain substantially below levels achieved in the late 1980s.

Relatively low levels of agricultural productivity in Russia, Ukraine, and Kazakhstan suggest potential to respond to higher market prices in the near term, but it is unclear how producers will respond or to what extent such factors as weak input markets, credit constraints, or infrastructure

limitations will affect responses by growers. Also unclear is how policy changes, which in the short term have included export restraints to moderate domestic price increases, will evolve in the medium- and longer term to strengthen incentives for agriculture. Russia's new "National Agriculture Program" suggests more government support for agriculture. In the longer term, it is also important to assess the extent to which new capital, including oil revenues, will flow into longer term enhancements in technology and infrastructure. Both short- and longer term changes induced by higher commodity prices may potentially affect U.S. competitiveness, both for meats in the Russia market and, for grains, oilseeds, and cotton in third country markets.

7. DESCRIPTION OF PROBLEM TO BE ADDRESSED

The large recent increases in U.S. and global prices for agricultural commodities and energy have created significant market uncertainty and increased the demand for market information and analysis to support public and private decision makers in the agricultural sector. Recent market conditions have the potential to generate significant shifts in global supply, demand, and trade that will change the competitive environment facing U.S. agriculture. Developing and transition economies in particular tend to have more potential to boost yields by applying inputs and upgrading technology, to increase competitiveness by improving marketing efficiency, and, in some cases, to expand cropland compared with the United States and other developed countries. While higher energy prices are raising production and marketing costs, higher commodity prices are also likely to stimulate public and private investment in agricultural production and marketing, with medium- and longer term implications for U.S. competitiveness. Food and feed demand patterns are also affected by the large recent price shifts, including the diversion of crops for conversion to biofuels, the reconfiguration of feed rations, and, potentially, shifts in the location of livestock production and food processing enterprises.

The unprecedented increase in agricultural and energy prices has been driven by a unique set of underlying factors—including sustained high growth in developing countries, the integration of energy and farm commodity markets, new financial instruments, and a transition to lower levels of stocks—that have also created an unprecedented level of uncertainty in U.S. and global markets for farm commodities. In response, it is important that USDA, in its role as a primary provider of information on global agricultural commodity markets, enhance its capacity to provide the best available information on the likely short- and longer term market responses of major U.S. markets and competitors. In this project, we propose to enhance the capacity of USDA, as well as collaborators in Argentina, Brazil, Russia, Ukraine, and Kazakhstan, to provide reliable information on the ongoing and anticipated market responses in these countries. The types of issues to be addressed in the target countries include:

- Crop area potential and crop competition
- Yield potential with existing technology
- Performance of input markets
- Shifts in food, feed, and industrial demand
- Investment in development of land, input markets, and technology
- Investments in market and processing infrastructure

We propose to accomplish these goals through a combination of on-the-ground assessments in the target countries, collaborative analyses with target country experts, and a series of published analyses of factors affecting the supply, demand, and trade responses.

8. PROJECT OBJECTIVES

- 1) Strengthen USDA capacity to analyze and project the potential impacts on U.S. competitiveness resulting from the large recent shifts in food and energy prices.
- 2) Provide analyses for USDA and USDA clients on the adjustments occurring and likely to occur in target countries and their implications for U.S. and global trade.
- 3) Develop contacts and collaborative relationships with foreign country analysts and researchers to support USDA analyses in the longer term.

9. PERFORMANCE MEASURES

- 1) Successful team fact finding visits in target countries. Success requires interviews and data collection from a broad range of public and private sector interests, including growers, firms involved in agricultural input, marketing, processing, and technology industries, banks, and government officials.
- 2) Improved information, forecasts, and projections of global and U.S. market conditions to support public and private sector decision making and export marketing. ERS will publish a report on each of the 5 target countries analyzing the potential supply and demand responses for major grains, oilseeds and products, and animal products, including implications for U.S. trade.
- 3) Collaborative relationships with target country institutions and analysts built through cooperative research and reciprocal travel.

10. RATIONALE

The recent record increases in agricultural and energy prices have created unprecedented uncertainty about the future direction of agricultural markets and the competitive environment for U.S. farm commodities, including wheat, coarse grain, oilseeds and products, and meats and other animal products. The large shifts in relative prices, together with strong underlying growth in food, feed, and industrial demand for farm commodities, strongly suggest that our previous information and understanding about the supply and demand behavior of foreign markets will no longer be valid. This new market environment requires an investment to strengthen USDA's analytical capacity through on-the-ground assessment and engagement with local experts in foreign countries, including those targeted for this project. Better information, widely disseminated, will help reduce market uncertainty and facilitate public and private agricultural trade and investment decisions.

11. DEMONSTRATION OF BENEFITS TO U.S. AGRICULTURE, NOT JUST THE APPLICANTS

USDA and ERS are primary providers of analysis and research to support U.S. public and private sector decision making in the agricultural sector, including developments in global markets. This project will support FAS, other USDA and USG agencies, and private sector analysts by increasing the availability of timely and reliable public information to help adapt to the new market environment and potential shifts in U.S. market prospects. In cooperation with FAS field offices and target country collaborators, the project will develop reports and analyses on the supply, demand, trade, and policy adjustments occurring in the target countries. Further, by building collaborative relationships with FAS field offices and target country collaborators, the project will strengthen ERS and USDA capacity to analyze and report on these adjustments in the future.

12. JUSTIFICATION FOR FEDERAL FUNDING

Providing reliable information on conditions in agricultural markets is a primary mission of USDA and ERS in order to support efficient resource allocation in the economy, as well as effective public policy. USDA and ERS have a particular responsibility and strong reputation for providing information on developments in important global markets and foreign countries because the relatively high costs of acquiring such information and expertise. This project provides the resources for USDA and ERS to respond to unique market conditions and develop the capacity to provide reliable information for U.S. policy makers and exporters on how the new environment will affect key U.S. markets and competitors.

13. DESCRIPTION OF ACTIVITIES TO BE UNDERTAKEN

We propose to undertake the following activities designed to build USDA and target country capacity to analyze the impacts of the recent increases in global commodity prices and provide reliable information on potential short- and longer term market developments:

Fact finding team travel in target countries: Two- or three-person ERS teams will visit each of the 5 target countries to collect data and information through interviews with a broad range of public and private sector institutions. Efforts will be made to meet with growers and grower organizations, government officials, firms involved in agricultural inputs, marketing, and processing, financial institutions, and academic researchers.

Facilitation of collaboration with target country institutions: ERS will attempt to identify an institution to form an analytical collaboration with in each of the 5 target countries. Small, short-term research grants and/or support for travel to ERS for analytical collaboration will be provided through the project. Potential collaborators in each country are:

- Argentina: Secretariat of Agriculture; INTA (government agricultural research institute).
- Brazil: National Supply Company (Companhia Nacional de Abastecimento--CONAB), Institute for Applied Economics Research (Instituto de Pesquisa Economica Aplicada—IPEA), Getulio Vargas Foundation.

- Russia: ProZerno (a subsidiary of WJ Group); Institute for Agricultural Market Studies (IKAR); Russian Grain Union; Meat Union of Russia.
- Ukraine: Institute of Agricultural Economics (IAE); Ukrainian Grain Association.
- Kazakhstan: Ministry of Agriculture; Institute of Economic Research in Agro-Food Sector.

Publish joint ERS-collaborator analyses of market responses and issues in each target country: ERS, in cooperation with FAS field offices, will publish an outlook report on each of the 5 target countries providing analyses of the market responses occurring, or expected to occur in each country, along with implications for U.S. exports. To the extent possible, these reports will be jointly authored with collaborators in each country.

14. TIMELINE FOR IMPLEMENTATION OF ACTIVITIES

November 2008-April 2009:	Fact-finding team travel in each country
February-May 2009:	Reciprocal travel by collaborators
February-September 2009:	Complete country analyses

15. SIMILAR ACTIVITIES FUNDED BY USDA IN TARGET MARKET

USDA has not funded similar activities in Argentina, Russia, Ukraine, or Kazakhstan during the last 3 years, the period for which EMP project lists are available on the FAS website. ERS has undertaken similar work in an EMP project in Brazil (Brazil's Competitive Potential: Impact of Domestic Prices, Limits to Agricultural Growth, and Rising Domestic Demand) funded in FY 2005 and FY 2006. The proposed project will benefit from work completed and contacts developed during the earlier project, and provide travel and collaboration funds to address the implications of recent high global commodity prices on domestic production and competition with U.S. exports.

USDA/NASS has EMP projects focused on improving agricultural statistics in Argentina and Russia that were funded in FY2008, and has proposed a similar project for Ukraine. This proposed ERS project will benefit from any improvements in current agricultural statistics stemming from the USDA/NASS projects, but will focus on analysis of the potential for future changes in agricultural supply, demand, and trade.

16. BUDGET AND ADMINISTRATION

Project Budget – Attached

Building Capacity to Analyze Foreign Market Response to High Food and Energy Prices

Travel		Air	L&MIE	Misc	Total	Notes
Fact-finding travel						
Argentina		9,600	9,000	1,900	32,300	4 travelers, 1 trip
Brazil			9,900	1,900		7 days/country
Russia		17,800	12,400	1,400	52,300	5 travelers, 1 trip
Ukraine			9,200	1,400		7 days/country
Kazakhstan			8,700	1,400		
Total					84,600	
Collaboration		U.S. travel			Grants	Total
		Air	L&MIE	Misc		
Argentina		2,000	1,680	500	3,500	7,680
Brazil		2,000	1,680	500	3,500	7,680
Russia		2,000	1,680	500	3,500	7,680
Ukraine		2,000	1,680	500	3,500	7,680
Kazakhstan		2,000	1,680	500	3,500	7,680
Total						38,400
ERS Salaries		Staff	#weeks	Salary/ week	Total	
Argentina/Brazil team		4	2	2,000	16,000	
Ukraine/Kazakhstan team		4	3	2,000	24,000	
Total					40,000	
Grand Total					163,000	